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THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY AND EXHIBIT

OF

A. RANDY WATTS

MAY 3, 2010

DOCKET NO. 2009-489-E

Application of South Carolina Electric & Gas Company for Increases and Adjustments in Electric Rate Schedules and Tariffs

DIRECT TESTIMONY OF A. RANDY WATTS

FOR

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2009-489-E

IN RE: APPLICATION OF SOUTH CAROLINA ELECTRIC & GAS COMPANY FOR INCREASES AND ADJUSTMENTS IN ELECTRIC RATE SCHEDULES AND TARIFFS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Randy Watts. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as Program Manager in the Electric Department for the Office of Regulatory Staff ("ORS").

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science Degree in Electrical Engineering from the University of South Carolina in Columbia in 1976. I was employed at that time by the Public Service Commission of South Carolina ("Commission") as a Utilities Engineer in the Electric Department and was promoted to Chief of the Electric Department in August 1981. Subsequent to internal Commission restructuring, my position was redesignated Chief of Electric in October 1999. I remained in that role until transferring to my current position with ORS in January 2005. I have testified on numerous occasions before the Commission in conjunction with fuel clause, complaint, territorial assignment, Siting Act and general rate proceedings.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to address certain areas of the Electric Department's examination of South Carolina Electric & Gas Company ("Company" or "SCE&G") Application for a general increase in its electric rates and tariffs under Docket No. 2009-489-E. My testimony will specifically address rate design, revenue verification and distribution, rate adjustments, depreciation rates, customer growth computation, and certain Pro Forma adjustments.

Q. HAS THE COMPANY PROPOSED MODIFICATIONS TO ITS CURRENT TARIFF STRUCTURE?

A. Yes. The Company has made several changes to the existing tariff structure as described in Company witness Hendrix's testimony. These include modifications to Rates 3, 20, 23, and elimination of Rate 21A.

The Company eliminated the "Summer" and "Winter" designation for Rate 3, Municipal Power Service, since the energy charge for this Rate does not vary with the seasons.

The Basic Facilities Charges for Rates 20 and 23 were separated from the demand charge in the initial block and shown as a separate component for transparency.

ORS has reviewed these modifications and has concluded they are reasonable.

The Company proposes to eliminate Rate 21A because a sufficient level of consumption has not shifted to off-peak periods to justify the discounts in the rate. However, the data indicates that a reduction in on-peak demand has been achieved by the customers on this tariff which is a desired result of an energy efficiency program. In light of this, ORS recommends this tariff remain open and available.

Additionally, the Company made changes to the air conditioning requirements to Rate 6 for simplicity and to align it with the current Energy Star standards. The Company also updated the kWh per month designation on the lighting tariffs to include the latest manufacturers input wattage. Furthermore, the Company has made minor changes to rate designations and various tariffs to reflect the proper expression for kWh. ORS has reviewed these modifications and has concluded they are reasonable.

Q. PLEASE EXPLAIN HOW THE REVENUE REQUIREMENTS WERE DETERMINED FOR EACH CUSTOMER CLASS.

A. The Company's Cost of Service Study was utilized to determine the proper cost allocation for each class, and then revenues were applied to bring the class returns more in line with the overall return requested.

Q. DID ORS VERIFY THE COMPANY'S REVENUE COMPUTATIONS USED IN DETERMINING THE VARIOUS TARIFF INCREASES?

A. Yes. We reviewed the test year billing determinant data for each rate schedule applied to the rates to confirm the validity of the data. We then confirmed the use of these determinants applied to the proposed rates. The difference in these two calculations produces the revenue increase the Company requested in this proceeding. This is a reasonable and appropriate method for determining the accuracy of the proposed rates and reasonableness of the billing determinants.

Q. PLEASE EXPLAIN ORS'S CUSTOMER GROWTH DERIVATION INCLUDING THE RESULTING GROWTH FACTOR FOR THE COMPANY.

A. The customer growth factor is derived for each class of service by taking the difference between the test year ending number of customers and the average number during the year, and dividing the resultants by the average number of customers. The resulting class factor is then applied to the class operating return to obtain the customer growth return amount. The next step is to remove the corresponding amount related to wholesale operations, leaving only the South Carolina retail portion applicable to this jurisdiction. The total of these individual class growth return amounts is added to retail operating return. This methodology results in a retail customer growth factor of 0.3412% for the Company. I provided this customer growth factor to the ORS Audit Department for inclusion in its analysis.

Q. PLEASE EXPLAIN THE ADJUSTMENT THAT ORS IS PROPOSING FOR INCENTIVE PAY.

A. The Company proposed an adjustment to reduce total system incentive pay by fifty percent or $8,205,121 and related taxes for the test year. In prior orders the Commission has either removed a portion of incentive pay or denied recovery in rates of "at risk" compensation. Results of the Company's "at risk" compensation goals for 2008 showed that every department met every initiative and thus qualified for receipt of "at risk" pay. In addition, the Company's Human Resources Committee changed the criteria for stock awards for Officers for the 2008-2010 period when it appeared the performance thresholds would not be met for the prior period of 2006-2008 because they were unrealistic. [See Exhibit ARW-1, *emphasis added.*] The thresholds for the 2006-2008 cycle were ultimately exceeded. ORS recommends the total system amount of $16,410,241 should be removed in this case and not included in retail rates. I provided this system number to ORS Audit Department for inclusion in its analysis of Adjustment No. 5.

Q. PLEASE EXPLAIN THE ADJUSTMENT PERTAINING TO VC SUMMER REFUELING OUTAGE ACCRUAL.

A. The Company proposed to reduce the annual accrual amount for VC Summer Station Unit 1 refueling outage operating and maintenance expenses by $92,593 to reflect an eighteen month total of $33,000,000 for refueling outage cycle 19. This total accrual amount appears to be based on the cost of refueling outage 18 which included activities, such as steam generator inspection, that do not routinely occur during every refueling outage and would not be expected to occur in refueling outage 19. ORS reviewed these cost estimates and believe the refueling outage accrual of $28,625,000 used for cycle 17 is more appropriate. It should be noted that SCE&G is responsible for only two-thirds of these expenses which is reflective of its ownership portion of VC Summer Unit 1. This total system number was provided to ORS Audit Department to be included in Adjustment No. 14.

Q. PLEASE EXPLAIN THE ADJUSTMENT PERTAINING TO MAJOR MAINTENANCE EXPENSES.

A. SCE&G proposed to increase the amount currently in rates used to levelize the major maintenance costs of its fossil units by $10,789,611. This increase in costs is primarily driven by maintenance costs associated with increased reliance on the Company's combined cycle generating units. The Company used total major maintenance costs of its fossil fleet over a nine-year period (2010-2018) to determine this adjustment. In Order No. 2005-2, the Commission approved the initial levelization based on an eight-year major maintenance cycle, and there is no indication that this cycle period has increased beyond the original eight years. ORS is cognizant of the fact that these are substantial costs associated with essential maintenance activities and concur there should be an appropriate adjustment. ORS submits that the eight-year period of major maintenance costs from 2010 through 2017 is the appropriate cycle over which to calculate the adjustment in this case. The resulting average annual system maintenance expense including Williams Station is $18,435,780. Utilizing this period results in an increase of $9,971,870 on a system basis. ORS agrees with the Company that the over-recovery or under-recovery balances in the major maintenance account should bear interest, but that interest should be based upon the 3-Year United States Treasury Bill rate plus 0.65 percentage points not to exceed 6%. ORS's understanding of the intent of this adjustment is to provide the

Company the ability to recover these intermittent costs associated with major maintenance activities in a timely manner. The Company should examine these expenses diligently to ensure only the appropriate costs are charged to this account. This total system number was provided to the ORS Audit Department to be included in Adjustment No. 17.

Q. PLEASE EXPLAIN THE ADJUSTMENT PERTAINING TO THE ECONOMIC IMPACT ZONE TAX CREDIT.

A. The Company proposes an adjustment to credit a portion of the deferred Economic Impact Zone (EIZ) Tax Credit to ratepayers over a five year period. This amounts to an annual amortization of $6,175,000 on a system basis for a five year period. In light of the current state of our economy, ORS recommends that these credits should be included in rates sooner rather than later, and therefore, proposes the deferred EIZ Tax Credit balance be flowed to the ratepayers in two years. This amounts to $24,362,500 on an annual basis or a rate decrement Rider of $0.00114/kWh which will expire after a two year period. This recommendation was provided to the ORS Audit Department to be included in Adjustment No. 43.

Q. DID ORS REVIEW THE COMPANY'S DEPRECIATION STUDY PREVIOUSLY FILED UNDER DOCKET NO. 2009-496-E?

A. Yes. ORS reviewed this study, which the Company filed in December 2009. In its filing, the Company requested approval of an accounting order allowing it, in addition to other requests, to adopt the new depreciation rates effective January 1, 2009. In December, ORS provided comments indicating no objection to the Company's request. The Commission approved the Company's request in January, 2010 in Order No. 2009-908(A). ORS's review found the study results and methodologies were consistent with other electric utilities in the State previously approved by the Commission. Results of the study indicate an annual reduction in depreciation expense. ORS also confirmed the depreciation rates from this study that were used to annualize the effect to the test year and verify Plant-In-Service depreciation expense.

Q. WHAT IS ORS'S POSITION IN REGARD TO THE COMPANY'S REQUEST TO PHASE IN THE REQUESTED INCREASE?

A. Since ORS is using known and measurable investments and expenses it has audited and verified along with the "used and useful" standard, ORS concluded that a phase-in is not appropriate in this proceeding.

Q. DOES ORS HAVE A RECOMMENDATION FOR THE ALLOCATION OF ANY CHANGE IN REVENUE REQUIREMENT THAT MAY BE APPROVED?

A. ORS does not have a recommendation at this time with the exception of the proposed change to the Basic Facilities Charge ("BFC") for the standard residential rate schedules. As the Commission has previously determined in prior cases, ORS recommends that any increase to the BFC for the standard residential rates be limited to $0.50 or less.

Q. PLEASE EXPLAIN HOW THE $25 MILLION ADJUSTMENT WILL IMPACT REVENUES.

A. As discussed in ORS witness Ford's testimony, if the Commission approves the Stipulation, the one-time credit agreed to by the Company can be accomplished through a one year decrement Rider. The initial annual net revenue increase to the Company will be approximately $76.9 million if this $25 million credit is not included in a Rider. Inclusion of the $25 million credit in a Rider results in an initial annual net revenue increase of approximately $51.9 million.

Q. DOES ORS HAVE A RECOMMENDATION AS TO HOW THE $25 MILLION ADJUSTMENT SHOULD BE INCLUDED IN RATES?

A. There are a number of ways to include this amount if the Commission approves the Stipulation; however, at the time of filing of this testimony, ORS does not have a recommendation to offer on this issue.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2008

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _____ to _____

SCANA®
POWER FOR LIVING

Commission File Number	Registrant, State of Incorporation, Address and Telephone Number	I.R.S. Employer Identification No.
1-8809	SCANA Corporation (a South Carolina corporation) 1426 Main Street, Columbia, South Carolina 29201 (803) 217-9000	
1-3375	South Carolina Electric & Gas Company (a South Carolina corporation) 1426 Main Street, Columbia, South Carolina 29201 (803) 217-9000	

Securities registered pursuant to Section 12(b) of the Act:

Each of the following classes or series of securities is registered on The New York Stock Exchange.

Title of each class	Registrant
Common Stock, without par value	SCANA Corporation
5% Cumulative Preferred Stock par value $50 per share	South Carolina Electric & Gas Company

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. SCANA Corporation ☒ South Carolina Electric & Gas Company ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. SCANA Corporation ☐ South Carolina Electric & Gas Company ☐

Indicate by check mark whether the registrants: (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

For the first and second years of the 2007-2009 period, SCANA's TSR was at the 59th and 82nd percentiles, respectively, which resulted in awards on the TSR component being earned at 118% and 150% for the respective years, payment of which will be deferred until the end of the three-year period as discussed above. See the "Outstanding Equity Awards at 2008 Fiscal Year-End" Table.

With respect to the growth in earnings component for the 2007-2009 period, executives earn threshold payouts (equal to 50% of target award) for each year in the three-year period in which growth in SCANA's GAAP-adjusted net earnings per share from operations equals 2%. Executives earn target payouts (equal to 100% of target award) for each year in which such growth equals 4%, and maximum payouts (equal to 150% of target award) for each year in which such growth equals or exceeds 6%. Payouts are scaled between 50% and 150% based on the actual growth in SCANA's GAAP-adjusted net earnings per share from operations achieved. No payouts will be earned for any year in which growth in SCANA's GAAP-adjusted net earnings per share from operations is less than 2%, and no payouts will exceed 150% of target award.

For the first and second years of the 2007-2009 period, SCANA's growth in GAAP-adjusted net earnings per share from operations were 5.8% and 7.7%, respectively, which resulted in awards for this component being earned at 145% and 150% for the respective years. As discussed above, payment of these awards will be deferred until the end of the three-year period. See the "Outstanding Equity Awards at 2008 Fiscal Year-End" table.

2008-2010 Performance Share and Restricted Stock Awards

On the recommendation of the Human Resources Committee, our Board approved further changes to the design of awards for the 2008-2010 period to reflect the evolving business climate within which we operate. As discussed above, each of the grants for the 2006-2008 and 2007-2009 performance cycles under SCANA's Long-Term Equity Compensation Plan provided for awards of performance shares, 60% of which would be earned based on SCANA's level of success in achieving certain TSR targets as compared to the TSR of a peer group of companies, and 40% of which would be earned based on SCANA's level of success in achieving certain EPS growth targets. The performance share awards for the 2006-2008 period provided for a three-year measurement period, and the performance share awards for the 2007-2009 period provided for annual measurement periods.

The Human Resources Committee considered the fact that the performance thresholds were not met with respect to either the SCANA TSR or EPS growth components for the 2004-2006 cycle, nor was the performance threshold met with respect to the SCANA TSR component for the 2005-2007 cycle. Although threshold performance was met with respect to the SCANA EPS growth component for the 2005-2007 cycle, performance shares earned and paid out were only 57.5% of the targeted 40% award, resulting in an overall payout of 23%.

When the Committee adopted the criteria for awards for the 2008-2010 period, it appeared that the performance threshold with respect to the SCANA TSR component for the 2006-2008 cycle would not be met, and that the performance threshold for the SCANA EPS component would only be met between threshold and target. The Committee based its decision to change the criteria for the 2008-2010 cycle on its belief that the below threshold performance described above, and what it anticipated would be below threshold to marginal performance for the 2006-2008 cycle, indicated that criteria were unrealistic. Although thresholds for the 2006-2008 cycle were ultimately exceeded for both the SCANA TSR and EPS component, it was not possible to predict early in the year that the economic downturn would impact our peers negatively and that SCANA's long-term equity cycles would end the year with a positive accrual.

In February 2008, we believed the principal reason for the below threshold performance in prior years with respect to the SCANA TSR component of the awards was that our announced plans to build new generation capacity, including our consideration of a potential new nuclear facility, have depressed the market price of SCANA stock. We believe the construction of new generation capacity is in our long-term best interests, and the long-term best interests of SCANA's shareholders and the communities we serve, but it appears to us that the financial markets may have a more short-term focus. Although alignment of our executives' interests with shareholder interests is very important, we wish to continue to encourage our executives and our employees to focus on our long-term goals and avoid having their strategic decisions driven by short-term market performance. Accordingly, to reduce the potential negative impact that might result from our plans for increased generation capacity, we made further adjustments to the design of the awards under the Long Term Equity Compensation Plan.

Because we believed our plans to build new generation capacity were a primary reason for SCANA's depressed stock price and resulting failure to meet its TSR targets, we asked our compensation consultant to review the long-term incentive practices of a group of peer utility companies that have announced an interest in expanding generation capacity, including those considering building new nuclear facilities. The companies included in this modified 2008 survey are as follows:

AES; Ameren; American Electric Power; CenterPoint Energy; Consolidated Edison; Constellation; Dominion; DTE Energy; Duke Energy; Edison International; Entergy; Exelon; FirstEnergy; FPL Group; Integrys Energy Group; Nisource; NRG Energy; Pepco Holdings; PG&E; PPL; Progress Energy; Public Service Enterprise Group; Reliant Energy; Southern Company; Xcel Energy.